

GE INDUSTRIAL OF PR, LLC

Financial Statements

December 31, 2017

(With Independent Auditors' Report Thereon)



KPMG LLP
American International Plaza
Suite 1100
250 Muñoz Rivera Avenue
San Juan, PR 00918-1819

Independent Auditors' Report

The Board of Managers
GE Industrial of PR, LLC:

We have audited the accompanying financial statements of GE Industrial of PR, LLC (the Company), which comprise the balance sheet as of December 31, 2017, and the related statements of income, comprehensive income, changes in member's equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of GE Industrial of PR, LLC as of December 31, 2017, and the results of its operations and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

San Juan, Puerto Rico
July 16, 2018

Stamp No. E325099 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

GE INDUSTRIAL OF PR, LLC

Balance Sheet

December 31, 2017

Assets

Current assets:

Cash and cash equivalents	\$	8,706,727
Accounts receivable:		
Affiliates		13,473,314
Trade and other receivables		2,748,090
Total accounts receivable		16,221,404
Inventories, net		43,713,535
Prepaid expenses		1,124,095
Loans receivable from General Electric Company		209,591,104
Loan receivable from affiliated company		120,000,000
Total current assets		399,356,865
Deferred tax asset, net		10,318,626
Equipment and leasehold improvements, net		45,537,068
Total assets	\$	455,212,559

Liabilities and Member's Equity

Current liabilities:

Accounts payable:		
Trade	\$	35,026,766
Affiliates		103,527,881
Total accounts payable		138,554,647
Accrued expenses		8,907,776
Pension and postretirement liabilities		1,176,815
Total current liabilities		148,639,238
Pension and postretirement liabilities		37,695,746
Total liabilities		186,334,984
Member's equity:		
Member's interest		129,081,200
Retained earnings		184,116,764
Accumulated other comprehensive loss		(44,320,389)
Total member's equity		268,877,575
Commitments and contingencies		
Total liabilities and member's equity	\$	455,212,559

See accompanying notes to financial statements.

GE INDUSTRIAL OF PR, LLC

Statement of Income

Year ended December 31, 2017

Net sales	\$ 269,925,979
Cost of sales	<u>164,323,415</u>
Gross profit	105,602,564
General and administrative expenses	<u>41,254,317</u>
Operating profit	64,348,247
Interest income	<u>3,844,157</u>
Earnings before income tax expense	68,192,404
Income tax expense	<u>2,172,885</u>
Net income	<u><u>\$ 66,019,519</u></u>

See accompanying notes to financial statements.

GE INDUSTRIAL OF PR, LLC
Statement of Comprehensive Income
Year ended December 31, 2017

Net income	\$ 66,019,519
Other comprehensive income, net of tax:	
Defined-benefit pension and postretirement plans:	
Net actuarial gain	2,415,286
Amortization of prior service cost included in net periodic pension cost	<u>13,661</u>
Other comprehensive income	<u>2,428,947</u>
Comprehensive income	<u>\$ 68,448,466</u>

See accompanying notes to financial statements.

GE INDUSTRIAL OF PR, LLC

Statement of Changes in Member's Equity

Year ended December 31, 2017

	Member's interest	Retained earnings	Accumulated other comprehensive income (loss)	Total member's equity
Balance, December 31, 2016	\$ 129,081,200	118,097,245	(46,749,336)	200,429,109
Net income	—	66,019,519	—	66,019,519
Other comprehensive income	—	—	2,428,947	2,428,947
Balance, December 31, 2017	<u>\$ 129,081,200</u>	<u>184,116,764</u>	<u>(44,320,389)</u>	<u>268,877,575</u>

See accompanying notes to financial statements.

GE INDUSTRIAL OF PR, LLC
Statement of Cash Flows
Year ended December 31, 2017

Cash flows from operating activities:

Net income	\$ 66,019,519
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	7,378,437
Deferred tax expense	1,691,296
Decrease (increase) in:	
Accounts receivable from affiliates	(1,777,548)
Trade and other receivables	2,827,494
Inventories	(5,569,098)
Prepaid expenses	685,768
Prepaid income tax	602,982
Increase (decrease) in:	
Accounts payable – trade	(1,673,207)
Accounts payable to affiliates	9,196,139
Accrued expenses	(2,386,701)
Pension and post retirement liabilities	3,934,745
Net cash provided by operating activities	<u>80,929,826</u>

Cash flows from investing activities:

Capital expenditures	(8,321,661)
Loans to General Electric Company	(86,086,182)
Net cash used in investing activities	<u>(94,407,843)</u>
Net change in cash and cash equivalents	(13,478,017)

Cash and cash equivalents, beginning of year

22,184,744

Cash and cash equivalents, end of year

\$ 8,706,727

Supplementary information on noncash operating transactions affecting cash flows activities for the year ended December 31, 2017:

Change in liability for pension and postretirement benefits, net of tax	\$ (2,428,947)
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See accompanying notes to financial statements.

GE INDUSTRIAL OF PR, LLC

Notes to Financial Statements

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(1) Nature of Business and Summary of Significant Accounting Policies

GE Industrial of PR, LLC (the Company) was organized on November 6, 2006 under the laws of Puerto Rico. The Company is a limited liability company and up to March 22, 2013 was owned by Caribe GE International of Puerto Rico, Inc. and Caribe GE Manufacturing, LLC, which are ultimately owned by the General Electric Company (General Electric). On March 22, 2013, Caribe GE International of Puerto Rico, Inc. purchased the common stock owned by Caribe GE Manufacturing, LLC and became the sole owner of the Company. The Company is engaged in the manufacture of electrical products through a number of manufacturing plant facilities, which are located at different municipalities in Puerto Rico. Sales are primarily made to affiliates.

The accounting policies conform to U.S. generally accepted accounting principles. The significant accounting policies followed by the Company are the following:

(a) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the carrying amount of equipment and leasehold improvements, valuation of inventories, deferred tax assets, environmental liabilities, and assets and obligations related to employee benefits.

(b) Cash Equivalents

The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. At December 31, 2017, the Company had no cash equivalents.

(c) Inventories

Inventories consist primarily of raw materials and finished goods and are stated at the lower of cost, using the first-in, first-out method, or realizable values, net of obsolescence reserve, amounting to \$2,357,709 at December 31, 2017.

(d) Depreciation and Amortization

The cost of equipment is depreciated using an accelerated method over the estimated useful lives of the assets. Improvements to leased premises are amortized on the straight-line method over the term of the lease or the estimated useful life of the improvement, whichever is shorter.

(e) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The

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Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest related to unrecognized tax benefits in interest expense and penalties in selling, general, and administrative expenses.

(f) Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

(g) Revenue Recognition

The Company recognizes revenue when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists, and the sales price is fixed or determinable.

(h) Fair Value Measurements

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

(i) Pensions and Other Postretirement Plans

The Company participates in a contributory defined-benefit pension plan (the Plan) covering the Company's employees and other General Electric employees in Puerto Rico. The Company records annual amounts relating to its pension and postretirement plans based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return, compensation increases, turnover rates, and healthcare cost trend rates. The Company reviews its assumptions on an

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December 31, 2017

annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. The effect of modifications to those assumptions is recorded in accumulated other comprehensive income and amortized to net periodic cost over future periods using the corridor method. The Company believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience and market conditions.

(2) Inventories

At December 31, 2017, inventories consist of the following:

Raw materials	\$ 39,156,669
Work in process	3,968,843
Finished goods	2,945,732
Reserve for slow-moving or obsolete inventory	<u>(2,357,709)</u>
	<u>\$ 43,713,535</u>

(3) Equipment and Leasehold Improvements, Net

Equipment and leasehold improvements at December 31, 2017 consist of the following:

Machinery and equipment	\$ 126,861,508
Leasehold improvements	22,975,701
Improvements in progress	<u>9,875,153</u>
	159,712,362
Less accumulated depreciation and amortization	<u>(114,175,294)</u>
Equipment and leasehold improvements, net	<u>\$ 45,537,068</u>

The estimated useful life of machinery and equipment ranges from 5 to 15 years. Amortization of leasehold improvements is provided over the term of the lease or the useful life of the asset, whichever is shorter. Depreciation and amortization expense for the year ended December 31, 2017 was \$7,378,437.

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(4) Intercompany Transactions

All sales are transacted with General Electric and affiliates. Significant transactions with General Electric and affiliates during the year ended December 31, 2017 are summarized as follows:

Sales	\$ 269,925,979
Purchases	7,315,826
Allocated general and administrative expenses	1,217,778
Corporate assessments	221,629
Interest income	2,726,466
Royalty expenses	9,621,063

Loans receivable from General Electric represent advances with quarterly repayment terms, which at December 31, 2017 amounted to \$ 209,591,104. The interest rate on the loans changes on a weekly basis based on the commercial paper rate. As of December 31, 2017, the loans had a rate of 1.32%. The loans were collected on January 3 and January 4, 2018 for the outstanding balance at December 31, 2017.

The loan receivable from an affiliated company is an unsecured revolving line of credit available for a term of six months that expired February 11, 2017, but was extended to February 11, 2018 (the scheduled termination date.) The loan bears interest at USD Libor rate adjusted by a credit spread determined by the affiliate's credit score. At December 31, 2017, accrued interest on the loan amounted to \$129,506. The affiliated company may, at its option, at any time, without premium or penalty prepay in whole or in part any amount of the principal outstanding with all accrued interest thereon.

(5) Income Taxes

The Company along with other affiliates in Puerto Rico (collectively known as the Companies) has been granted a tax exemption decree (the Grant) pursuant to the provisions of the Puerto Rico Tax Incentives Act No. 135 of 1998 (Act No. 135) for a period of ten (10), fifteen (15), twenty (20), and twenty-five (25) years depending on the municipality the exempted businesses is located. The effective date of the tax exemption was January 1, 2009.

Under the Grant, the Company's manufacturing operation is subject to an income tax rate in a range between 2% and 7%, subject to compliance with certain employment requirements, and shall make an additional investment of \$50 million within seven (7) years, commencing on January 1, 2009. Dividends and liquidating distributions of the Company's earnings and profits from industrial development income are not subject to income taxes or to any withholding tax at source.

In addition, the Company's manufacturing operations are exempt as follows:

- 90% from municipal and Commonwealth taxes on real and personal property.
- 60% from license fees, excise, and other municipal taxes, levied by any ordinance of any municipality.
- 100% from excise taxes imposed under Subtitle B of the Puerto Rico Internal Revenue Code, to the extent provided in Section 6(c) of the Act.

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During 2015, the Company announced the closure of its San Germán, and Vega Baja manufacturing plants which is consistent with its' overall strategy of consolidating manufacturing operations to reduce the global footprint and lower the overall cost to manufacture. During 2016, the Company completed the closure of the Vega Baja plant and transferred the San German manufacturing operations to a third-party supplier. The Company has been in communication with the government of the Commonwealth of Puerto Rico regarding this matter, and requested an amendment to its Grant of Industrial Tax Exemption in order to realign its headcount level. The request for amendment was filed during 2014 and, approval from the Puerto Rico Industrial Development Company (PRIDCO) was received in May 2015, but with effective date of January 1, 2014. In addition, PRIDCO agreed to provide the Company with an incentive where PRIDCO will reimburse the Company an amount up to \$6 million spent in infrastructure improvements and equipment and up to \$3.6 million of incentives for rent payments. As of December 31, 2017, the Company has claimed the total \$6 million in infrastructure improvements and equipment, and the total \$3.6 million of rent incentives.

Pursuant to Law No. 226 of August 29, 2002, the manufacturing operation located in Vieques was granted 90% exemption from property and municipal license taxes, and 100% exemption from income tax on industrial development income for a period of 10 years. Renovation of the contract in 2009 extended the exemption period for another 10 years.

On August 19, 2004, the Companies' and the Secretary of the Treasury entered into a closing agreement pursuant to Section 6126 of the Puerto Rico Internal Revenue Code of 1994, as amended, whereby the Companies are entitled to the income tax overpayments resulting from reallocations made by the Internal Revenue Service's (IRS) to taxable years 1983 through 1999, pursuant to Section 482 of the U.S. Internal Revenue Code. The income tax overpayments will be available as credits to the Companies or their successors in interest against any future liability for Puerto Rico income taxes, provided that such credit may not be used to reduce the total Puerto Rico income tax liability by more than 50% for any given year.

On September 25, 2017, General Electric Company announced the sale of its Industrial Solutions business, a major division of the Company's manufacturing operations to ASEA Brown Boveri (ABB), a Swiss-based engineering company. (See note 11). On March 2018, the Company filed with the Office of Industrial Tax Exemption and Amendment of Tax exemption Grant requesting the approval of the sale and transfer of the Industrial Solutions business to ABB, and that all terms and condition of the Grant remain in full force and effect. The request was approved by the Office of Industrial Tax Exemption on June 27, 2018.

The expected income tax expense differs from the actual tax benefit mainly due to the reduction in income taxes resulting from the Puerto Rico Tax Incentives Act No. 135 of 1998, tax credits available per closing agreements with the Secretary of the Treasury, and other tax credits provided by Act 73 of May 28, 2008.

Total income tax expense recorded by the Company for the year ended December 31, 2017 was allocated as follows:

Current	\$	481,589
Deferred		<u>1,691,296</u>
Total	\$	<u><u>2,172,885</u></u>

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Notes to Financial Statements

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The tax effects of temporary differences that give rise to significant portions of the deferred taxes at December 31, 2017 is presented below:

Deferred tax assets:

Pension, postretirement and medical benefits	\$	777,451
Inventories, principally due to reserve for inventory obsolescence		44,078
Other general and environmental reserve		78,628
Depreciation expense difference between book and tax basis		14,662
Tax credit per closing agreement		211,897
Tax credits granted under Act No. 73 of 2008		<u>9,418,187</u>
Deferred tax assets		10,544,903

Deferred tax liability-equipment, due to differences in depreciation and deduction of capital expenditures

226,277

Net deferred tax assets

\$ 10,318,626

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income, and tax-planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences at December 31, 2017. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

The Puerto Rico Tax Code (the Code) requires that entities exceeding a predefined volume of business submit audited financial statements for filing with local taxing authorities. This predefined volume of business is determined on a "controlled group" basis, as defined in the Code. Among the requirements imposed by the Code, entities that are part of a controlled group should file consolidated or combined audited financial statements, including a consolidating schedule presenting the financial condition and result of operations of each entity. The Department of the Treasury of the Commonwealth of Puerto Rico issued Administrative Determination No. 1407 to provide an alternative requirement in lieu of the consolidated financial statements.

For tax year 2017, entities required to file audited financial statements with their income tax returns may file statutory audited financial statements and, in lieu of providing audited consolidated statements, should disclose in the notes to the statutory audited financial statements the names of related entities engaged in active trade or business in Puerto Rico, as defined by the Code. The following related entities are engaged in active trade or business within Puerto Rico:

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- GEA Caribbean Export LLC
- Caribe GE International of Puerto Rico, Inc.
- Caribe GE Manufacturing of PR LLC
- General Electric Company
- GE Betz International, Inc.
- Caribe GE International Energy Services, Corp.
- General Electric International, Inc.
- GE Healthcare Puerto Rico Corp.
- General Electric Capital Corporation of Puerto Rico, Inc.
- Panametrics Caribbean, Inc.
- Caribe GE Engineering Services, Inc.
- Alstom Caribe, Inc.
- Amersham Health Inc.
- Qualified Contractors, Inc.
- Fieldcore Service Solutions LLC
- GE Oil & Gas Puerto Rico, Inc.
- Industrial C&S of P.R. LLC
- Industrial Connections & Solutions, LLC

At December 31, 2017, tax years 2013 through 2017 of the Company remain subject to examination by the Puerto Rico taxing authorities.

(6) Pension Plan, Postretirement, and Postemployment Benefits (All Amounts in Thousands)

The Company accounts for its contributory defined-benefit pension plan in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 715-20, *Compensation – Retirement Benefits – Defined Benefit Plans – General*. The ASC 715-20 requires balance sheet recognition of the net asset or liability for the overfunded or underfunded status of defined benefit pension and other postretirement benefit plans, on a plan-by-plan basis, and recognition of changes in the funded status in the year in which the changes occur.

The Company participates in a contributory defined-benefit pension plan (the Pension Plan) covering the Company's employees and other General Electric employees in Puerto Rico (commonly known as the GE Companies in Puerto Rico). The Pension Plan has a December 31 measurement date. Benefits are based on years of service and the employees' earnings. The administration of the Pension Plan resides at another affiliated entity. The Company makes annual contributions to the Pension Plan in amounts sufficient to meet minimum funding requirements as set forth in employee benefit and tax laws, plus such additional amounts as the Company may determine to be appropriate. The Company accounts for the Pension Plan

GE INDUSTRIAL OF PR, LLC

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in a manner similar to a multiple-employer plan. The total pension expense attributable to the Company for the year ended December 31, 2017 amounted to approximately \$4,532. At December 31, 2017, the Company had an accrual for pension liability amounting to \$26,042.

In addition, the Company and the other GE Companies in Puerto Rico provide postretirement medical and life insurance benefits (the Postretirement Plan and, collectively, the Plans) to full-time employees who meet minimum age and service requirements. The Postretirement Plan is contributory, with retiree contributions adjusted annually, and contains other cost sharing features, such as deductibles and coinsurance. The accounting for the Postretirement Plan anticipates future cost sharing changes to the written plan that are consistent with the expressed intent to increase the retiree contribution rate annually for the expected general inflation rate for that year. These benefits are accrued but are not funded annually. The total postretirement expense allocated to the Company for the year ended December 31, 2017 amounted to \$228. At December 31, 2017, the Company had an accrual for medical and life insurance benefits amounting to \$12,831.

The following table sets forth the benefit obligation, fair value of plan assets, and funded status of the Plans at December 31, 2017:

	Pension benefits	Postretirement benefits	
		Medical	Life insurance
Projected benefit obligation at December 31	\$ 279,521	7,053	9,920
Fair value of plan assets at December 31	213,030	—	—
Unfunded status	<u><u>\$ (66,491)</u></u>	<u><u>(7,053)</u></u>	<u><u>(9,920)</u></u>

GE INDUSTRIAL OF PR, LLC

Notes to Financial Statements

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	Pension benefits	Postretirement benefits	
		Medical	Life insurance
Change in benefit obligation:			
Projected benefit obligation at beginning of year	\$ 262,955	6,323	9,390
Service cost	2,879	224	99
Interest cost	10,607	233	351
Plan participants' contributions	672	—	—
Actuarial loss	17,049	1,094	243
Benefits paid	(14,641)	(821)	(163)
Curtailments	—	—	—
Special/contractual termination benefits	—	—	—
Projected benefit obligation at end of year	<u>\$ 279,521</u>	<u>7,053</u>	<u>9,920</u>
Change in plan assets:			
Fair value of plan assets at beginning of year	\$ 199,229	—	—
Actual return on assets	27,769	—	—
Employer contributions	—	—	—
Plan participants' contributions	673	—	—
Benefits paid	(14,641)	—	—
Fair value of plan assets at end of year	<u>\$ 213,030</u>	<u>—</u>	<u>—</u>

	Pension benefits	Postretirement benefits	
		Medical	Life insurance
Components of net periodic benefit cost:			
Service cost	\$ 2,879	224	98
Interest cost	10,607	233	351
Expected return on assets	(14,403)	—	—
Net prior service cost amortization	21	—	—
Net loss/(gain) amortization	6,639	(366)	(288)
Net periodic benefit cost	<u>5,743</u>	<u>91</u>	<u>161</u>

Amounts recognized by the GE Companies in Puerto Rico in accumulated other comprehensive income in 2017 consist of the following:

	Pension benefits	Postretirement benefits	
		Medical	Life insurance
Net prior service cost/(credit)	\$ 22	—	—
Net loss (gain)	106,651	(2,825)	(4,322)
	<u>\$ 106,673</u>	<u>(2,825)</u>	<u>(4,322)</u>

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The accumulated benefit obligation for the Pension Plan was \$272,672 at December 31, 2017. The amounts recognized by the GE Companies in Puerto Rico as of December 31, 2017 consist of the following:

	Pension benefits	Postretirement benefits	
		Medical	Life insurance
Net pension and postretirement liability:			
Current liability	\$ —	(696)	(480)
Noncurrent liability	(66,491)	(6,357)	(9,439)
Net pension and postretirement liability	<u>\$ (66,491)</u>	<u>(7,053)</u>	<u>(9,919)</u>

The amortization of net loss and prior service cost for the contributory defined benefit pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$6,145. The aggregate amortization of the net gain for the postretirement benefits medical and life insurance plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is (\$431).

Weighted average assumptions used to determine benefits obligation at December 31, 2017 is as follows:

	Pension benefits	Postretirement benefits	
		Medical	Life insurance
Discount rate	3.65 %	3.58 %	3.58 %
Rate of compensation	3.00	3.00	3.00
Current healthcare cost trend rate	N/A	7.25	N/A
Ultimate healthcare cost trend rate	N/A	5.00	N/A
Year of ultimate healthcare cost trend rate	N/A	2027	N/A

Weighted average assumptions used to determine net benefits cost for the year ended December 31, 2017 is as follows:

	Pension benefits	Postretirement benefits	
		Medical	Life insurance
Discount rate	4.11 %	3.99 %	3.99 %
Expected long-term rate of return on plan assets	7.50	N/A	N/A
Rate of compensation increase	3.00	3.00	3.00
Current healthcare cost trend rate	N/A	7.50	N/A
Ultimate healthcare cost trend rate	N/A	5.00	N/A
Year of ultimate healthcare cost trend rate	N/A	2027	N/A

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Assumed medical health care cost trend rates have a significant impact on the amounts reported for medical health care plans. A one-percentage point change in assumed medical health care cost trend rates would have the following effects as of December 31, 2017:

	One-percentage-point	
	Increase	Decrease
Effect on total of service cost and interest cost	\$ 504	415
Effect on accumulated postretirement benefit obligation	7,644	6,531

The GE Companies in Puerto Rico expect to make approximately \$5,755 for the contributory defined benefit pension plan during 2017. Additionally, the GE Companies in Puerto Rico expect to contribute during 2017 approximately \$709 to the postretirement medical plan and approximately \$489 to the postretirement life insurance plan. GE Companies in Puerto Rico fund retiree health benefits on a pay-as-you-go basis. GE Companies in Puerto Rico fund retiree life insurance trust at their discretion.

To determine the expected long-term rate of return on pension plan assets, the GE Companies in Puerto Rico consider the current and expected asset allocations, as well as historical and expected returns on various categories of plan assets. The GE Companies in Puerto Rico apply an expected rate of return to a market-related value of assets, which reduces the underlying variability in assets to which the GE Companies in Puerto Rico apply that expected return.

The GE Companies in Puerto Rico amortize actuarial gains and losses, as well as the effects of changes in actuarial assumptions and plan provisions, over a period no longer than the average future service of employees.

The pension plan assets are invested in the GE Pension Trust (the Trust) along with the assets of other GE affiliates pension plan assets.

The GE Pension Plan has a broadly diversified portfolio of investment in equities, fixed income, private securities, real estate, and hedge funds; these investments are both U.S. and non-U.S. in nature. As of December 31, 2017, no sector concentration of assets exceeds 15% of total GE Pension Plan Assets.

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The fair value of the pension plan investments is presented below (amount in millions):

Asset category:

Global securities	\$	9,192
Debt securities:		
Fixed income and cash investment funds		1,200
U.S. corporate (a)		6,597
Other debt securities (b)		5,225
Real estate		2,125
Private equities & other investments		581
		<u>24,920</u>
Investments measures at net asset value (NAV)		
Global securities		13,790
Debt securities		4,107
Real estate		1,258
Private equities & other investments		6,286
Total	\$	<u><u>50,361</u></u>

(a) Primarily represented investment-grade bonds of U.S. issuers from diverse industries.

(b) Primarily represented investments in residential and commercial mortgage backed securities, non U.S. corporate and governmental bonds and U.S. government, federal agency, state and municipal debt.

Investments with a fair value of \$2,891 million were classified within Level 3. The remaining investments were substantially all considered Level 1 and 2. Assets that were measured at fair value using NAV as practical expedient were excluded from the fair value hierarchy.

Plan fiduciaries of the GE Pension Plan set investment policies and strategies for the GE Pension Trust and oversee its investment allocation, which includes selecting investment managers and setting long-term strategic targets. The primary strategic investment objectives are balancing investment risk and return and monitoring the plan's liquidity position in order to meet the near-term benefit payment and other cash needs. Target allocation percentages are established at an asset class level by plan fiduciaries. Target allocation ranges are guidelines, not limitations, and occasionally plan fiduciaries will approve allocations above or below a target range. According to statute, the aggregate holdings of all qualifying employer securities (e.g., GE common stock) and qualifying employer real property may not exceed 10% of the fair value of trust assets at the time of purchase. GE securities represented 1.0% of the GE Pension Trust assets at year ended 2017.

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Estimated future benefit payments for the GE Companies in Puerto Rico Plans are as follows:

	Pension benefits	Postretirement benefits	
		Medical	Life insurance
Estimated future benefit payments:			
2018	\$ 14,211	709	489
2019	14,180	639	487
2020	14,173	545	490
2021	14,116	471	494
2022	14,504	556	497
2023–2027	73,886	2,556	2,585

The Company also participates in a 1165(e) Retirement Plan (the Plan), which covers all salaried employees and other GE employees in Puerto Rico after the date of hire. Under the provisions of the Plan, employees elect to contribute of their before-tax annual compensation and the Company matches 50% of the first 6% of the amount contributed by the employees up to a maximum \$15 in 2017.

On July 1, 2008, the Company adopted a 1165(e) Retirement Plan, which covers all hourly employees and other GE employees in Puerto Rico (Hourly Plan). Under the provisions of the Hourly Plan, employees are eligible to the plan after three months of the hire date and the Company matches 50% of the first 4% of the amount contributed by the employees up to a maximum of \$15 in 2017.

The Company may also make discretionary annual contributions to the Retirement Plans out of its operating income, as defined in the Salaries and the Hourly Plan. The amount of contributions expense recognized by the Company during the year ended December 31, 2017 amounted to approximately \$348.

(7) Hurricane Maria

On September 20, 2017, Hurricane Maria impacted Puerto Rico causing widespread infrastructure and other property damage, and the complete collapse of the electrical grid across the island. The Company suffered substantial damages related to property losses and significant additional expenditures were incurred to ensure the continuing of its operations in the aftermath of the storm. Such expenditures included the acquisition and maintenance of back-up power generators, outsourcing of services, increased security, idle facilities and labor costs, repairs and clean-up costs. Furthermore, the Company experienced a significant decrease in the volume of business during the period immediately after the storm and through the month of October 2017, as the population struggled with the recovery efforts, while dealing with significant shortages of fuel, food, water and other basic needs.

Additional expenses incurred as a result of Hurricane Maria amounted to approximately \$4.2 million, which were recorded as part of general and administrative expenses for the year ended December 31, 2017. In addition, the Company experienced significant damages to its facilities, however, since the majority of the related assets were fully depreciated, recorded property losses amounted to only \$452,400 for the year ended December 31, 2017. Such losses were also included as part of general and administrative expenses in the accompanying statement of income.

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The Company submitted an insurance claim for property losses, extra expenses and business interruption recoveries. On March 2018, the Company's insurer approved a proof loss claim of \$14,971,135, net of deductibles, as follows:

Property damages	\$ 8,345,301
Business interruption	3,517,247
Extra Expense	3,108,587
	<u>\$ 14,971,135</u>

Prior to December 31, 2017, the Company received an advance on such insurance recoveries of \$5,000,000, which was recorded as a reduction of the related property losses and extra expenses, while the remaining \$9,971,135 were paid in March 2018.

(8) Contingencies

(a) *Environmental Remediation Costs*

The Company is involved in a remediation action to clean up hazardous wastes as required by federal and the Puerto Rico Commonwealth laws. Liabilities for remediation costs at the site are based on the Company's best estimate of undiscounted future costs, excluding possible insurance recoveries. When there appears to be a range of possible costs with equal likelihood, liabilities are based on the low end of such range. Uncertainties about the status of laws, regulations, technology, and information related to individual sites make it difficult to develop a meaningful estimate of the reasonably possible aggregate environmental remediation exposure. However, management is of the opinion that, even in the unlikely event that remediation costs amounted to the high end of the range of costs for each site, the resulting additional liability would not be material to the financial position, results of operations, or liquidity of the Company. As of December 31, 2017, the Company has accrued approximately \$1,194,000 for related future monitoring expenditures. An affiliate funded this charge.

(b) *Legal*

The Company is a defendant in legal actions arising in the ordinary course of business. Management, after consultation with its legal counselors, is of the opinion that the ultimate liability, if any, resulting from such pending legal actions would not be material in relation to the financial position, results of operations, or liquidity of the company.

(c) *Leases*

The Company leases certain operating facilities under noncancelable operating leases expiring at various dates through 2018. Minimum lease payments during 2017 of \$64,577 were offset by PRIDCO rent incentives. The future minimum lease payments for 2018 are \$945,178.

(9) Fair Value of Financial Instruments

The Company's significant financial instruments included cash and cash equivalents, accounts receivable, loans receivable from affiliate, accounts payable, and accrued expenses. At December 31, 2017, the carrying value of most financial instruments approximated fair value since the amounts are expected to be collected or disbursed within one year. It is not practical to determine the fair value of the loans receivable

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from General Electric and affiliate as both are related-party transactions. However, management is of the opinion that such fair value approximates its carrying value due to its variable rate structure.

(10) Royalties

On May 7, 2012, GE Energy Management (GE Energy) signed a new strategic alliance with China XD Electric Co., Ltd. (XD Electric) in order to deliver a full line of electric transmission, distribution and grid automation solutions to customers and energy intensive instruments around the world. As part of the strategic alliance, GE Energy agreed to establish an automation joint venture (AJV) in China with XD Electric in order to offer customers secondary equipment products and localized grid automation solutions in China. The AJV will enable GE Energy to expand its access to the China Technological and Development segment by adapting GE Energy's technology to local market needs with the support of a strong regional primary equipment company. GE Energy will also sell a perpetual IP technology license of its universal relays at a fee to the AJV for the design and manufacture of automation products. The AJV's sole market is China. The AJV was formed in March 2013.

The technology transfer agreement between GE Energy and XD Electric provides for the transfer of certain GE Energy's technology and intellectual property (IP) related to specific secondary equipment products to the AJV in exchange for \$12 million in technology transfer fees to be paid as royalties by the AJV to GE Industrial of PR LLC (the Company). The technology agreement grants the rights to the AJV to use the technology and IP, as well as requires the Company to provide to the AJV certain technical assistance, support and training in connection with such transfer, and It also grants the Company and AJV the rights to certain improvements, modifications, enhancements, adaptations, derivative works and changes to the technology and IP created, developed or conceived after the date of the technology agreement. The technology agreement outlines provisions of what will be transferred, when it will be performed and through what means. The Company received \$540,000 in royalty payment during the year ended December 31, 2017.

(11) Subsequent Events

On September 25, 2017, General Electric Company announced the sale of its Industrial Solutions business for approximately \$2,600 million to ASEA Brown Boveri (ABB), a Swiss-based engineering company. The transaction closed in June 30, 2018. Approximately 70% of the net sales of the Company during the year ended December 31, 2017 were earned by the Industrial Solutions business. As of December 31, 2017, total assets approximating 70% were owned by Industrial Solutions.

The Company has evaluated all subsequent events through July 16, 2018, the date the financial statements were available to be issued.